

[This is an English translation prepared for the convenience of non-resident shareholders. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.]

<JT logo>

To Our Shareholders and Investors

Business Report

<Logo> Report on the Consolidated Financial Results for the First Six Months of the Fiscal Year Ending March 31, 2013

<Logo> JT NEWS

<Logo> JT Group Products

<Logo> CLOSE UP! (JT Group Companies / Business Divisions)

<Logo> JT Topics

<Logo> A lesson from the past at the end of a journey

<Photo>

Receiving certificate of appreciation for donations for post-earthquake reconstruction support

<Photo>

New drug approval obtained in the U.S. for single-tablet regimen containing JTK-303  
(Central Pharmaceutical Research Institute)

<Photo>

Mild Seven evolves to Mevius in February 2013

Volume 39

## TOP MESSAGE

Revenue and profits grew in the consolidated financial results for the six months ended September 30, 2012, driven by a strong top-line performance by the tobacco business.

Our operating environment in the tobacco business remains a difficult one, with intensified competition and industry contraction as well as tighter regulations in several markets. Nevertheless, our continued investment in enhancing brand equity has generated strong business momentum in our tobacco business. In the second half of this fiscal year, we will focus on the evolution of Mild Seven to Mevius, and investment will be made to strengthen our brand equity, in order to further recover our market share.

### **Consolidated financial results for the six months ended September 30, 2012**

Revenue, adjusted EBITDA, operating profit and profit attributable to owners of the parent company increased 6%, 15.1%, 25.5% and 17.5% respectively for the six months ended September 30, 2012, driven by a strong top-line performance by the tobacco business. Top-line growth was driven by a sales volume increase caused by recovery from the impact of the earthquake in the domestic tobacco business and strong pricing and growth in GFB shipment volume in the international tobacco business.

### **Consolidated financial forecast for the fiscal year ending March 31, 2013**

We have revised down the revenue forecast to expected growth of 2.9% year on year, due to negative forex effects arising from our revised forex assumption.

Business momentum has remained strong due to the projected volume increase in the domestic tobacco business, and the upward revision of total and GFB shipment volume and pricing in the international tobacco business. However, we maintained the initial forecast for adjusted EBITDA of expected growth of 3.1% year on year, as these positive factors will be offset by the negative forex effect of local currencies depreciating against the dollar and the strong yen.

Driven by business momentum, we expect 11.2% growth year on year for adjusted EBITDA at constant rates of exchange.

On the other hand, the forecast for operating profit is revised upward to expected growth of 7.4% year on year, taking into account gains from sale of non-current assets. The forecast for profit attributable to owners of the parent company remains unchanged at an expected decrease of 0.9% year on year, as the projected growth in operating profit will be offset by an increase in financial costs.

Each business division will continue to pursue its own strategy so as to achieve our target.

Mitsuomi Koizumi, President & CEO

Consolidated Financial Results for the First Six Months of the Fiscal Year Ending March 31, 2013  
(FY2012)

(Billions of yen)

	Six months ended September 30, 2012	Year-on-year change
Revenue	1,057.4	+6.0%
Adjusted EBITDA <sup>*1</sup> at constant rates of exchange	353.0	+23.5%
Adjusted EBITDA <sup>*1</sup>	329.1	+15.1%
Operating profit	265.6	+25.5%
Profit for the period <sup>*2</sup>	168.8	+17.5%

\*1. Adjusted EBITDA = operating profit + depreciation of property, plant and equipment + amortization of intangible assets + impairment losses on goodwill ± restructuring-related income and restructuring-related costs

\*2. Attributable to owners of the parent company

### **Domestic Tobacco Business**

Revenue and profit growth were driven by a sales volume increase due to recovery from the impact of the earthquake

After limiting deliveries in terms of the number of brands and delivery volume owing to the impact of the earthquake in the three months ended June 30, 2011, we have launched new products and strengthened sales promotion initiatives in order to recover our market share. As a result, total sales volume increased substantially year on year. Revenue and adjusted EBITDA grew, driven by an increase in total sales volume.

(Billions of yen)

	Six months ended September 30, 2012	Year-on-year change
Core revenue	335.0	+16.8%
Adjusted EBITDA	154.2	+24.4%

### **Total sales volume**

Total sales volume increased due to recovery from the impact of the earthquake and strengthening of sales promotion initiatives.

(Billions of cigarettes)

	Six months ended September 30, 2012	Year-on-year change
Total sales volume	59.6	+17.0%

### **Market share**

Initiatives such as the launch of new products and various sales promotion campaigns have resulted in a recovery in market share.

## International Tobacco Business

Achieved strong top-line growth driven by strong pricing and an increase in GFB shipment volume

Due to strong pricing effects, as well as shipment volume increases especially in GFB, core revenue and adjusted EBITDA grow strongly by 6.6% and 9.6%, respectively. Yen-based adjusted EBITDA increased 6.6% despite the effect of the strong yen.

(Millions of dollar)

	Six months ended September 30, 2012	Year-on-year change
Core revenue	5,728	+6.6%
Adjusted EBITDA	2,168	+9.6%
Yen-based adjusted EBITDA	¥172.9 billion	+6.6%

## Shipment volume

GFB shipment volume increased 7.2% despite market volume declines. Thanks to our continued brand investment, shipment volume of Winston increased in Russia, Italy and Ukraine, while shipment volume of LD increased in Russia and Turkey.

(Billions of cigarettes)

	Six months ended September 30, 2012	Year-on-year change
JTI shipment volume	212.4	+3.7%
GFB shipment volume	130.8	+7.2%

## Market share

Market share continued to grow year on year in most of our key markets.

	June 2011	June 2012	Year-on-year change
France	16.2%	16.7%	+0.5%pt
Spain	20.4%	22.1%	+1.7%pt
Italy	20.3%	21.4%	+1.0%pt
U.K.	39.0%	38.8%	-0.2%pt
Russia	37.4%	36.7%	-0.7%pt
(GFB share)	19.7%	21.3%	+1.6%pt
Turkey	23.4%	25.4%	+2.0%pt
Taiwan	38.4%	38.2%	-0.2%pt

\* Data sourced from AC Nielsen, Logista, Altadis and JTI data. 12 months moving average market share.

\* “%pt” is an abbreviation of “percentage point.”

## Pharmaceutical Business

The first approval obtained for an original JT compound

Revenue increased by ¥3.7 billion to ¥26.5 billion due to continued growth in sales of REMITCH capsules and Truvada tablets at Torii Pharmaceutical, as well as milestone revenue received by JT associated with progress in development of out-licensed compounds. On the other hand, losses in adjusted EBITDA worsened by ¥0.5 billion to minus ¥6.1 billion due to an increase in R&D expenditure by JT and Torii Pharmaceutical from progress in compound developments.

With respect to the status of development, Gilead Sciences, our licensee company, has obtained U.S. FDA approval for the single-tablet regimen containing anti-HIV drug JTK-303. This is the first approval granted for an original compound developed by JT. As for the progress status of other compounds under development, JTT-851, a compound for Type 2 diabetes mellitus, entered into Phase 2 overseas.

### Pharmaceutical business: Clinical development (as of October 30, 2012)

Code (generic name)	Key indication	Characteristics	Rights	Stage
JTK-303 (elvitegravir)	HIV infection	Integrase inhibitor which works by blocking integrase, an enzyme that is involved in the replication of HIV  - HIV: Human Immunodeficiency Virus	Gilead Sciences (U.S.) obtained the rights to develop and commercialize this compound worldwide from JT, with the exception of Japan.  Single-tablet regimen containing JTK-303: Application submitted to the European Medical Association JTK-303 as mono agent: Applications submitted to the U.S. FDA and the European Medical Association	In preparation for NDA filing of single-tablet regimen containing JTK-303 and JTK-303 as mono agent (Japan)
JTT-705 (dalcetrapib)	Dyslipidemia	Decreases LDL and increases HDL by modulation of CETP activity  - CETP: Cholesteryl Ester Transfer Protein, facilitates transfer of cholesteryl ester from HDL to LDL - HDL: High-density lipoprotein ("good cholesterol") - LDL: Low-density lipoprotein ("bad cholesterol")	Roche (Switzerland) obtained the rights to develop and commercialize the compound worldwide from JT, with the exception of Japan. (On May 7, 2012, Roche announced that it had abandoned development.)	Phase 2 (Japan)
JTT-302	Dyslipidemia	Decreases LDL and increases HDL by inhibition of CETP  - CETP: Cholesteryl Ester Transfer Protein, facilitates transfer of cholesteryl ester from HDL to LDL - HDL: High-density lipoprotein ("good cholesterol") - LDL: Low-density lipoprotein ("bad cholesterol")		Phase 2 (Overseas)
JTT-751 (ferric citrate)	Hyperphosphatemia	Decreases serum phosphorous level by binding phosphate derived from dietary in the gastrointestinal tract	JT obtained the rights to develop and commercialize this compound in Japan from Keryx Biopharmaceuticals (U.S.) (Developed jointly with Torii Pharmaceutical)	Phase 3 (Japan)

Code (generic name)	Key indication	Characteristics	Rights	Stage
JTT-851	Type 2 diabetes	Promotes glucose-dependent insulin secretion and corrects high blood sugar		Phase 2 (Japan) Phase 2 (Overseas)
JTZ-951	Anemia associated with chronic kidney disease	Increases red blood cells by accelerating production of erythropoietin, an erythropoiesis-stimulating hormone, via inhibition of HIF-PHD  - HIF-PHD: Hypoxia Inducible Factor-Prolyl Hydroxylase Domain containing protein		Phase 1 (Japan) Phase 1 (Overseas)
JTE-051	Autoimmune/allergic diseases	Suppresses overactive immune response via inhibition of the signal to activate T cells related to immune response		Phase 1 (Overseas)
JTE-052	Autoimmune/allergic diseases	Suppresses overactive immune response via inhibition of JAK, which contributes to the signal to activate immune response  - JAK: Janus kinase		Phase 1 (Japan)

\* The beginning of a development stage is based on when the administration of the drug commences.

Changes since the previous announcement on July 30, 2012:

JTT-851 has moved up from Phase 1 to Phase 2 in overseas.

Gilead Sciences, our licensee company, announced that it has obtained U.S. FDA approval for the single-tablet regimen containing JTK-303 (August 27).

[Additional note]

Glaxo Smithkline announced that an application has been filed to the U.S. FDA for a MEK inhibitor licensed from JT (August 3).

## Beverage Business

Continued enhancement of brand equity with a focus on 'Roots' and trade marketing capabilities

## Processed Food Business

Sales of staple food products continued to grow

In the second quarter ended September 30, 2012, the JT Group split the former "Food Business" into two segments, the "Beverage Business" and the "Processed Food Business."

In the beverage business, revenue decreased in comparison to the same period of the prior fiscal year, which was affected by a temporary demand increase following the earthquake. As a result, adjusted EBITDA also declined.

In the processed food business, we achieved sales growth for staple food products, but total revenue declined slightly due to a revenue decline in the processed fishery products business, from which we have already announced our withdrawal. Despite higher raw material costs, adjusted EBITDA increased compared to the previous year, due to the absence of litigation costs incurred in the same period of the prior year.

Beverage business (Billions of yen)

	Six months ended September 30, 2012	Year-on-year change
Revenue	98.2	-1.2
Adjusted EBITDA	7.3	-0.5

Processed food business (Billions of yen)

	Six months ended September 30, 2012	Year-on-year change
Revenue	83.9	-0.4
Adjusted EBITDA	2.7	+3.1



## Forward-looking and cautionary statements

This material contains forward-looking statements about our industry, business, plans and objectives, financial condition and results of operations that are based on our current expectations, assumptions, estimates and projections. These statements discuss future expectations, identify strategies, discuss market trends, contain projections of results of operations or of our financial condition, or state other forward-looking information. These forward-looking statements are subject to various known and unknown risks, uncertainties and other factors that could cause our actual results to differ materially from those suggested by any forward-looking statement. These forward-looking statements are not intended to be construed as our assurance for it to materialize in the future, we assume no duty or obligation to update any forward-looking statement or to advise of any change in the assumptions and factors on which they are based. Risks, uncertainties or other factors that could cause actual results to differ materially from those expressed in any forward-looking statement include, without limitation:

- (1) health concerns relating to the use of tobacco products;
- (2) legal or regulatory developments and changes, including, without limitation, tax increases and restrictions on the sale, marketing and usage of tobacco products, and governmental investigations and privately imposed smoking restrictions;
- (3) litigation in Japan and elsewhere;
- (4) our ability to further diversify our business beyond the tobacco industry;
- (5) our ability to successfully expand internationally and make investments outside of Japan;
- (6) competition and changing consumer preferences;
- (7) the impact of any acquisitions or similar transactions;
- (8) local and global economic conditions; and
- (9) fluctuations in foreign exchange rates and the costs of raw materials.

Consolidated Financial Statements

Consolidated statements of financial position

(Millions of yen)

	As of March 31, 2012	As of September 30, 2012	Increase (Decrease)
<b>Assets</b>			
Current assets	1,331,050	1,289,777	(41,273) *1
Non-current assets	2,335,957	2,357,930	21,973
Property, plant and equipment	619,536	622,653	3,117
Goodwill	1,110,046	1,139,322	29,277 *2
Intangible assets	306,448	309,514	3,066
Investment property	67,387	62,700	(4,687)
Retirement benefit assets	14,371	15,476	1,105
Investments accounted for using the equity method	18,447	20,445	1,997
Other financial assets	67,548	64,094	(3,455)
Deferred tax assets	132,174	123,726	(8,447)
<b>Total assets</b>	<b>3,667,007</b>	<b>3,647,707</b>	<b>(19,300)</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Current liabilities	1,157,474	1,058,073	(99,401) *3
Non-current liabilities	794,906	790,152	(4,754)
<b>Total liabilities</b>	<b>1,952,380</b>	<b>1,848,225</b>	<b>(104,155)</b>
<b>Equity</b>			
Equity attributable to owners of the parent company	1,634,050	1,717,784	83,734
Share capital	100,000	100,000	–
Capital surplus	736,410	736,410	–
Treasury shares	(94,574)	(94,574)	–
Other components of equity	(376,363)	(394,489)	(18,127) *4
Retained earnings	1,268,577	1,370,437	101,860
Non-controlling interests	80,576	81,698	1,122
<b>Total equity</b>	<b>1,714,626</b>	<b>1,799,482</b>	<b>84,855</b>
<b>Total liabilities and equity</b>	<b>3,667,007</b>	<b>3,647,707</b>	<b>(19,300)</b>

Note: Yen amounts are rounded to the nearest million.

\*1. Current assets: The amount of cash and cash equivalents decreased due to payment associated with the acquisition of Gryson.

\*2. Goodwill: Increased due to the acquisition of Gryson.

\*3. Current liabilities: The amount of interest-bearing debt decreased due to repayment of borrowings and redemption of bonds.

\*4. Other components of equity: The amount of foreign exchange difference with foreign operations increased because of depreciation of local currencies against US\$.

## Consolidated statements of income

(Millions of yen)

	Six months ended September 30, 2011	Six months ended September 30, 2012	Increase (Decrease)
Revenue	997,694	1,057,391	59,697
Cost of sales	(440,654)	(444,552)	(3,899)
Gross profit	557,040	612,839	55,799
Other operating income	12,220	4,510	(7,709)
Share of profit in investments accounted for using the equity method	1,259	2,354	1,094
Selling, general and administrative expenses	(358,890)	(354,104)	4,786
Operating profit	211,630	265,599	53,969
Financial income	8,604	1,963	(6,640)
Financial costs	(11,252)	(15,457)	(4,205)
Profit before income taxes	208,982	252,106	43,124
Income taxes	(61,718)	(80,270)	(18,552)
Profit for the period	147,264	171,836	24,571
Profit for the period attributable to:			
Owners of the parent company	143,638	168,766	25,128
Non-controlling interests	3,626	3,070	(557)
Profit for the period	147,264	171,836	24,571

Note: Yen amounts are rounded to the nearest million.

Consolidated statements of comprehensive income

(Millions of yen)

	Six months ended September 30, 2011	Six months ended September 30, 2012	Increase (Decrease)
Profit for the period	147,264	171,836	24,571
Other comprehensive income, net of taxes	72,306	(28,132)	(100,438)
Comprehensive income for the period	219,571	143,704	(75,867)
Comprehensive income for the period attributable to:			
Owners of the parent company	215,670	140,790	(74,879)
Non-controlling interests	3,901	2,913	(988)
Comprehensive income for the period	219,571	143,704	(75,867)

Note: Yen amounts are rounded to the nearest million.

Consolidated statements of cash flows

(Millions of yen)

	Six months ended September 30, 2011	Six months ended September 30, 2012	Increase (Decrease)
Net cash flows from operating activities	202,493	259,269	56,776
Net cash flows from investing activities	(37,779)	(96,279)	(58,501) *5
Net cash flows from financing activities	(190,458)	(214,900)	(24,441)
Net increase (decrease) in cash and cash equivalents	(25,744)	(51,910)	(26,166)
Cash and cash equivalents at the beginning of the period	244,240	404,740	160,500
Effect of exchange rate changes on cash and cash equivalents	(521)	(8,522)	(8,000)
Cash and cash equivalents at the end of the period	217,975	344,309	126,334

Note: Yen amounts are rounded to the nearest million.

\*5. Net cash flows from investing activities: Cash outflow used in investing activities increased due to the acquisition of Gryson.

## JT NEWS

### Support for reconstruction following the Great East Japan Earthquake

#### Receipt of certificate of appreciation for donations through the Shareholder Special Benefit Plan

Effective from our Shareholder Special Benefit Plan for shareholders as of March 31, 2011, we have been providing an option in which shareholders can opt to forego the complimentary gift and instead make a donation to reconstruction support in response to the Great East Japan Earthquake. The kind contributions of such shareholders have been donated, through the Central Community Chest of Japan's "Red Feather Disaster Relief Volunteer & NPO Support Fund," to NPOs working to support reconstruction following the Great East Japan Earthquake. The total amount of donations made by shareholders through the last three special benefit plans totaled ¥14,828,000.

To give thanks to the shareholders for their kindness, Kenji Nakajima, Managing Director of the Central Community Chest of Japan, presented a certificate of appreciation to Haruhiko Yamada, a Senior Vice President and Chief General Affairs Officer of JT, on October 5, 2012.

We would like to express our sincere gratitude to all of the shareholders who chose to make a donation.

<Logo>

[Donations for reconstruction support following the Great East Japan Earthquake]

As a contribution to relief efforts for those affected by the Great East Japan Earthquake and support for the reconstruction of the areas affected by the disaster, JT provides donations through the Central Community Chest of Japan's "Red Feather Disaster Relief Volunteer & NPO Support Fund." JT withholds complimentary gifts from shareholders who opt to make a donation, and donates the equivalent money on their behalf to the above-mentioned organization.

<Photo>

(Pictured right to left)

Haruhiko Yamada, Senior Vice President of JT, and Kenji Nakajima, Managing Director of the Central Community Chest of Japan

<Photo>

The Central Community Chest of Japan made a report on its activities amid a friendly atmosphere

<Photo>

The signing ceremony (Pictured right to left) Kishin Fujii, Vice Governor of Tottori Prefecture, Hideki Miyazaki, Executive Deputy President of JT, and Seiichiro Teratani, Mayor of Chizu Town

### Tottori Kyosei-no-Mori

Through a forest conservation and management accord concluded between three participants consisting of a company, Tottori Prefecture and the local municipal government, the prefecture and the local municipal government work together as a bridge between forest owners and parties such as companies. In this way, the system supports activities including coordination with the local area and forest conservation by companies, etc.

### “JT forest Chizu”

Three-year renewal of forest conservation accord with Tottori Prefecture and Chizu Town in Tottori Prefecture

The signing ceremony for the second period of “JT forest Chizu” was held on August 29 at the official residence of the Governor of Tottori Prefecture, and the forest conservation accord was entered into between three participants consisting of Tottori Prefecture, Chizu Town in Tottori Prefecture and JT. Having entered into a five-year accord with Tottori Prefecture and Chizu Town in August 2007 based on the prefecture’s “Tottori Kyosei-no-Mori” system, JT has been cooperating in initiatives for the conservation of privately owned forests.

In a short speech following the signing, Hideki Miyazaki, Executive Deputy President of JT, said that the results yielded in the first period of the project were thanks to the other participants in the accord. He added that JT intended to step up efforts with them to pass on forests to future generations. In addition, Seiichiro Teratani, Mayor of Chizu Town, said that the initiatives carried out in cooperation with the other participants in the accord had brought a sense of freshness to the town and strengthened the unity of the community. He expressed his enthusiasm for the accord by saying that he hoped to raise the value of the forest as an area full of diverse possibilities. Their words helped usher in a new beginning for forestry development in the area.



## Introducing New Tobacco Products

Smokeless tobacco that does not require a flame  
Available in limited quantities from early October!

Zerostyle

Limited release of three products each with separate concepts!

Pipes have distinctive design and cartridges manufactured in unique process

<Photo> Aromatic Blue Mint

“Zerostyle Drive Concept”

Menthol type

Packaging: One smokeless pipe and one cartridge

Price: ¥300

Made to be enjoyed while driving (in the car). It features a strong and brisk menthol flavor and aroma with subdued sweetness. The leather-like design of the pipe is inspired by the interior of cars.

<Photo> Aromatic Pink Flavor

“Zerostyle Off Concept”

Regular type

Packaging: One smokeless pipe and one cartridge

Price: ¥300

Made to be enjoyed during coffee or tea breaks. Its flavor and aroma are mild, with a clean sweetness that never tires the palate. The soft design of the pipe is intended to evoke images of relaxing breaks.

<Photo> Aromatic Yellow Taste

“Zerostyle Night Concept”

Regular type

Packaging: One smokeless pipe and one cartridge

Price: ¥300

Made to be enjoyed on fun nights out with friends. Its flavor and aroma are pleasantly sharp with a subtle sweet-and-sour overtone. The vivid colors of the cubic pipe design are intended to catch the eye.

As a new addition to its completely new style of smokeless tobacco product “Zerostyle,” which does not require a flame, JT has launched three products: “Zerostyle Drive Concept,” “Zerostyle Off Concept” and “Zerostyle Night Concept.” The products have been made available in limited quantities at selected retail stores across Japan.

Since the launch of “Zerostyle Mint” in May 2010, a growing number of customers have provided feedback on flavors, aromas and pipe designs for “Zerostyle” product line. These products, which can be

chosen for their flavor, aroma or pipe design to be enjoyed in three different situations, have been launched in response to such needs.

An effort has been made to distinguish these products from previous ones by using a pouch with a fastener for the packaging. The package designs feature icons and sub-names that simply convey the three different situations in which customers can enjoy the products, which are their underlying concepts.

Comments from person in charge

Three different situations in which Zerostyle smokeless tobacco is likely to be enjoyed are envisaged for these products: while driving a car, while having a coffee or tea break, and while enjoying a fun night out with friends. The flavor, aroma and pipe design of each product were developed to match each of these situations. We will continue to take up the challenge of redefining existing concepts and introducing innovations with the aim of improving customer satisfaction.

<Photo>

Hikomitsu Ohara, Senior Manager, A&E Tobacco Business Division, Tobacco Business, Japan Tobacco Inc.

\* This page is intended as an explanation of JT's business for shareholders. As such, it is not intended to promote product sales to consumers or to encourage them to smoke.

## Introducing New Beverage Products

<Photo>

### Renewal

- > Blended with “Brazil No. 2” high-grade beans!
- > Brings out the great taste of high-grade beans by using roughly ground beans

Roots “Aroma Impact Low Sugar SPECIAL”

185g tumbler can/¥115 (tax not included)

### Comments from person in charge

This is a low sugar coffee with a deep aroma that combines a strong richness with a clean aftertaste by using a blend of “Brazil No. 2” high-grade beans. “Brazil No. 2,” which is the main ingredient of the blend, is kept at a constant temperature of 15°C when it is transported from the beans’ country of origin to Japan. Grinding the beans roughly ensures that the delicious taste of high-grade beans is brought out to the maximum. Through the use of roughly ground beans in part of the blend, the Roots “Aroma Impact” series has been reborn with a coffee that reduces the sharpness of coffee with an elegant and mild taste and has an even richer aroma.

(Pictured left to right) Takashi Ito, Mitsunori Masuda, Product General Department, Soft Drink Business Division, Japan Tobacco Inc.

<Photo>

<Photo>

- > Contains vitamin C and citrus polyphenol!
- > Combines the rich sweetness and perfect amount of acidity of himepon fruit

### Recommended

Hot Ehime Himepon

275ml pet bottle

¥115 (tax not included)

<Photo>

- > Authentic green tea with the real taste of tea leaves!
- > Provides an ideal balance between rich taste and bitterness

### Recommended

Tsujiri Green Tea Containing Uji Powdered Tea

275ml pet bottle

¥115 (tax not included)

## JT Group Products

### Introducing New Food Products

<Photo>

Sanuki *Udon* Noodles 2 packs

2 servings/400g

Released

> Contains 2 servings, convenient for small families or when avoiding having leftovers

> Recreates the authentic taste of sanuki *udon* noodles just by heating in the microwave

### Comments from person in charge

In response to feedback from consumers seeking products that are easy to buy and use, this autumn we added a new 2 serving package of sanuki *udon* noodles to go with the existing 5 serving and 3 serving packages, enhancing the product mix in our lineup of stand-alone noodle products. This smaller pack is convenient for small families or those who want to avoid having leftovers. In the coming season, we recommend for these noodles to be enjoyed in soup in a pot. As the product has a competitive price, we also recommend for those who usually eat chilled noodles and have never tried frozen *udon* noodles before to give it a try.

Haruhisa Iijima, Marketing Division, TableMark Co., Ltd.

<Photo>

<Photo>

Japanese-style Rice

Fluffy Rice With Three Types of Mushroom

Released

400g

> A colorful mixture including carrots and kidney beans as well as maitake, bunashimeji and eringi mushrooms

> Mixed rice that brings out the authentic flavors of its ingredients in bonito and kelp broth

<Photo>

Released

Japanese-style Croquettes

Beef Croquettes Containing Maitake Mushrooms

Pack of 6/150g

<Photo>

Released

Soy Flavor *Ramen* Noodles That Bring Out the Flavor of the Broth

82g (noodles 75g)

CLOSE UP!

Introducing JT Group companies and business divisions to our shareholders.

Yokohama factory, Saint-Germain Co., Ltd.

Aiming to lead the world of bakeries with “No. 1 customer approval rating”

Saint-Germain Co., Ltd. operates bakery shops in Kanto and other areas.

This company plays a significant role not just as the core of the TableMark Group’s bakery business but also as a part of the JT Group’s food business.

In this issue we will introduce the company’s Yokohama factory, which started operations last year and boasts a “compact urban design.”

<Photo>

Tsuneo Yoshikawa, President & CEO

With the concept of providing delicious, freshly baked bread to a large number of customers, the first Saint-Germain shop was opened in Shibuya, Tokyo, in 1970. This shop was a forerunner of the company’s oven fresh bakery, which is equipped with full-scale production equipment in order to provide high-quality products to customers even for the bread they eat in everyday life.

The Yokohama factory is a cutting-edge factory that makes full use of the bread-making knowhow the company has accumulated for over 40 years. It also functions as a strategic base for the supply of baked frozen bread products, an area of focus for TableMark Co., Ltd.

The factory has a compact urban design

<Photo>

Masahiro Akasu, General Manager, Manufacturing Division

As a response to the aging of the former Tamagawa factory, the Yokohama factory started operations in November 2011 by effectively utilizing the site of the former factory of Fuji Foods Corporation, also of the TableMark Group.

By such means as concentrating the number of production lines, shortening the production flow, standardizing the production process and reducing the number of ovens through the use of multistage ovens, the factory only uses one third of the space used by the former factory. The utilization of cutting-edge multistage ovens has improved product quality and increased operational efficiency by reducing the number of ovens. In addition, the installation of cutting-edge equipment has enabled a substantial reduction in the time taken from straight after the bread is baked to when it is sliced and packaged, as well as the space needed for such operations.

In addition, one of the characteristics of the factory is its “double production structure,” in which baked frozen bread and frozen bread dough are produced throughout the day and products for the shops, which are the main products made, are mass-produced during the night.

### Factual Snippet About Saint-Germain

In a corner of the factory, there is a shrine dedicated to the deity of rice called the “Guardian of Saint-Germain.” Officers of the company pray together at the shrine to ask for safe operations at the factory.

The torii gate quietly keeping watch over the factory <Photo>

### Yokohama factory profile

Location: Nippa-cho 688, Kohoku-ku, Yokohama, Kanagawa

Start of operations: November 22, 2011

Structure: Steel reinforced construction, 4 stories (Annex: Steel reinforced construction, 2 stories)

Manufactured items: Bread, frozen dough, sweet foods, sandwiches

<Photo>

<Photo>

Not a speck of dust is missed by the thoroughgoing sanitation measures!

It is aimed for the factory to provide even safer products that can be eaten with confidence based on the ISO22000 certification obtained for the former Tamagawa factory.

For example, as shown in the picture, the factory has no external windows, reducing the likelihood of insects getting in. In addition, thoroughgoing sanitation measures are carried out, including the management of operational flows for employees and products, etc. by putting separate color codes on the floor of each operational area, the use of clothes rollers on employees in a preparation room when they enter the factory, and hand washing procedures.

For food protection purposes, entry into and exit from the building is managed with the use of ID cards and security cameras have been installed.

We always take care to provide safe products that can be eaten with confidence

<Photo>

Hiroshi Kakihara, General Manager, Quality Control Division

<Picture> Introduction to the manufacturing process for bread made at the Yokohama factory!

<Photo> Measuring

<Photo> Sifting

<Photo> Mixing (first mixing)

<Photo> Fermentation

<Photo> Mixing (second mixing)

<Photo> Second fermentation

<Photo> Putting in and taking out of oven (baking)

<Photo> Slicing and packaging  
Finished!



JT Pharmaceutical business

Stribild™, a single-tablet regimen containing out-licensed compound JTK-303, approved in the U.S.!

JT's first original new drug has finally arrived!

The results of JT's efforts to develop world-class, landmark original drugs are finally filtering through to patients.

<Photo>

Muneaki Fujimoto, President, Pharmaceutical Business, Japan Tobacco Inc.

The drug JTK-303 (generic name: elvitegravir, an integrase inhibitor) is an anti-HIV drug that JT created and granted exclusive rights for its development and commercialization worldwide excluding Japan to Gilead Sciences, Inc. (U.S.) (Gilead) in March 2005. In August 2012, Gilead announced that approval was obtained for a single-tablet regimen containing JTK-303 from the U.S. FDA.

Development started on JTK-303 in JT's pharmaceutical business about 10 years ago. Although it wasn't a smooth road, the Central Pharmaceutical Research Institute and others made progress on their research after overcoming various obstacles. Following the completion of clinical trials in Japan, the drug was out-licensed to Gilead in 2005. Since then, JTK-303 has evolved further through Gilead's research and development work.

Gilead combined JTK-303 with the active ingredients of both Emtriva® 200mg capsules and Viread® 300mg tablets, and a compound that increases blood levels of JTK-303 (generic name: cobicistat), and put them into a once-daily and single-tablet dosing. Since patients with HIV infections have to take a variety of different drugs on a daily basis, the combination of these elements in a single-tablet regimen has a significant advantage for such patients.

JTK-303

Emtriva

Viread

cobicistat

Single-tablet regimen Stribild™

\* JTK-303 and cobicistat as mono agents are still under development and they are yet to be approved worldwide, including Japan.

Factual Snippet About Pharmaceutical Business

Only about 20 new drugs are approved by the U.S. FDA each year, including biological products.

Although considerable effort is put into discovering candidate drugs, the ratio of such candidates that proceed to the clinical trial stage is about one in 2,000. Even after clearing that stage, the ratio of drugs

that are finally approved is between one in 5,000 and one in 10,000.

\* Source: Pharmaceutical Research and Manufacturers of America (PhRMA) Industry Profile 2011

CLOSE UP!

Central Pharmaceutical Research Institute

Takatsuki City, Osaka Prefecture

- Biological/Pharmacological Research Laboratories      - Chemical research laboratories
- Drug Metabolism & Pharmacokinetics Research Laboratories
- Product Development Laboratories

Yokohama City, Kanagawa Prefecture

- Pharmaceutical Frontier Research Laboratories

Hadano City, Kanagawa Prefecture

- Toxicology Research Laboratories

<Photo>

Gilead submitted a new drug application for the single-tablet regimen containing JTK-303 to the U.S. FDA in October 2011, and approval has been obtained as mentioned above. Currently, the product is on sale in the U.S. under the product name Stribild™.

Now that this approval has been obtained in the U.S., JT aims to apply for approval to manufacture and sell the single-tablet regimen containing JTK-303 in Japan during FY2012. JT has also concluded an agreement under which Torii Pharmaceutical Co., Ltd., a JT Group company, will have exclusive rights to sell the drug in Japan after this approval has been obtained. Since Torii Pharmaceutical Co., Ltd. already has Truvada® tablets, Emtriva® 200mg capsules, Viread® 300mg tablets and Viracept® 250mg tablets on the market as anti-HIV drugs, we believe that the approval and subsequent sales of this new single-tablet regimen in addition to the existing products will enable us to make an even greater contribution to the field of HIV treatment.

- Gilead Sciences, Inc. (U.S.)

<Photo>

Gilead, which was founded in 1987, is a pharmaceutical company that specializes in the development of anti-virus drugs for infectious disease therapy

[The route to new drug approval]

> 2004

Start of clinical trials of JTK-303

> March 22, 2005

Conclusion of license agreement with Gilead

> October 27, 2011

Application regarding Stribild™ made by Gilead to U.S. FDA

> August 27, 2012

Gilead's Stribild™ approved in the U.S.

## JT TOPICS

Mild Seven evolves to Mevius.

Effective February 2013.

<Photo>

A resolutely challenging spirit towards ceaseless evolution and global development

On August 8, 2012, JT held a press conference for all press outlets at the Mandarin Oriental Hotel Tokyo, at which President & CEO Mitsuomi Koizumi explained the new global growth strategy for JT's brands and provided detailed data about the strategy.

The popular Mild Seven brand has been the number one brand in Japan for the past 35 years and is currently sold in 17 countries and regions. JT now aims to grow Mild Seven into the number one global premium brand. Towards this aim, JT is focusing efforts on further strengthening the brand equity on a global scale. As part of these efforts, the Mild Seven brand will be renewed under a new brand name, and the brand will be given a globally unified package design.

The new brand name is Mevius. The name signifies the brand's continuation from Mild Seven, as well as a sense of ceaseless evolution and a commitment to continue strengthening the bond between the brand and its customers. It also expresses JT's determination to realize its goal of growing the brand into the number one global premium brand.

\* Brand equity: the value of a brand as an asset

Schedule for evolution to Mevius in Japan

<Photo>

▲ Around November 2012

◆ Around November 2012: NEW DESIGN

— New design with a refined sense of quality —

A world of endlessly spreading blue. A curve that sinuously flows.

The light from the dots that cover the whole package.

While the new package continues the brand color of blue, it also clearly expresses the brand's rich texture and identity as a premium brand through our thorough attention to detail.

<Photo>

▲ Around February 2013

◆ Around February 2013: Launch of new brand name Mevius

— The idea behind the new brand name Mevius —

The new brand name retains the "M" and "S" from Mild Seven, and adds the letters "E" and "V" to

signify evolution. The letter “I” signifies the brand itself, and the letter “U” (you) depicts a connection with the brand.

In this way, the name demonstrates JT’s firm intention to have the brand evolve continuously with its customers.

\* This page is intended as an explanation of JT’s business for shareholders. As such, it is not intended to promote product sales to consumers or to encourage them to smoke.

## The Lure of Tobacco Smoke

A lesson from the past at the end of a journey

Kanuma Municipal Art Museum of Kawakami Sumio [Tochigi]

<Photo>

A museum that conveys the foreign culture beloved of Sumio Kawakami, the “poet of woodblock prints”

Kanuma Municipal Art Museum of Kawakami Sumio in Kanuma City, Tochigi Prefecture is a museum exhibiting the works of Sumio Kawakami (1895-1972), a woodblock print artist who was active from the Taisho period to the Showa period. The works contained in the museum come to 2,500 items, most of which are from the collection of the late Katsusaburo Hasegawa (1912-2001), who was born in Kanuma City and was Sumio’s student.

The works of Sumio, who was known as the “poet of woodblock prints,” have poems written on them and are full of a sense of romanticism. As they depict themes such as “western culture” and “cultural enlightenment,” they are also infused with a sense of fascination with foreign cultures. Of these themes, Sumio had a particular affection for “western culture,” and a large number of his prints on this theme depicted people smoking tobacco. In addition, over the course of his lifetime Sumio frequently depicted scenes that featured tobacco, including showing *kiseru* and other kinds of pipes, which he collected as material for his works, in various different arrangements. At an exhibition held at Kanuma Municipal Art Museum of Kawakami Sumio four times a year, in addition to the woodblock prints Sumio created, numerous items that demonstrate the wide-ranging nature of his artistic work are exhibited, including glass pictures, sketches and wooden toys.

The museum also exhibits works of other artists from all over the country known as the “Woodblock Print Grand Prize” every March. In this way, the museum is continuing in the spirit of Sumio, who breathed new life into the world of woodblock prints, while discovering the woodblock print artists of future generations. Built in the style of the western buildings that appear in Sumio’s works, this museum gives visitors a sense of the imagination of an artist who fused the cultures of east and west and provides a taste of the contemporary block print scene.

<Photo>

The second-floor exhibition hall features works selected in accordance with the theme of each exhibition. The elegant colors used in Sumio’s works are one attractive aspect of the works.

<Photo>

The interior is reminiscent of a western building during the Meiji period. There is a beautiful stained glass window to light up the red-carpeted staircase.

<Photo>

Sumio's favorite wall clock is also exhibited. To the side of the clock there is a piece of writing about it by Sumio, in which he explains that a friend bought the clock for him.

<Photo>

Kanuma City has a number of places of interest in addition to Kanuma Municipal Art Museum of Kawakami Sumio. One of these is Kanuma Yatai Float Center. At the Yatai Float Viewing Hall, in which three ornately carved wooden floats (yatai) that are taken out for the autumn festival are exhibited, visitors can experience a wholly realistic demonstration of the items' history, the carving techniques used in making them and a depiction of the autumn festival conveyed with full use of images and sounds. In the northwestern part of the city, the Senjusan Amusement Park (pictured left) contains approximately 300 cherry blossom trees and over 1,000 azaleas. This well-known park bustles with visitors during the plants' blooming season. Equipped with a wide variety of fairground rides and other play equipment, on weekends and holidays it is also a place of recreation for the people of the city, who visit with their families. Kanuma City, with its culture of a "town of trees" in which beautiful flowers bloom, seems a good place to visit when experiencing the world of Sumio's block prints. Why not take a trip to the sightseeing spots in this area?

■ Kanuma Municipal Art Museum of Kawakami Sumio

Location

287-14, Mutsumi-cho, Kanuma, Tochigi 322-0031, Japan

(Walk for 20 minutes from Kanuma Station on the JR Line. Walk for 30 minutes from Shin-kanuma Station on the Tobu Railway.)

Inquiries: Tel 0289- 62- 8272

Opening hours: 9 a.m. to 5 p.m. (Last admission 30 minutes before closing)

Closed: Mondays (or the following Tuesday if Monday is a public holiday), days following public holidays, during the New Year holidays (December 28 - January 4), and between exhibition periods

Admission: Adults: ¥300, High school and university students: ¥200, Elementary and junior high school students: ¥100 (Group discount for groups of 20 or more) \*Admission is free for elementary and junior high school students every Saturday

<http://kawakamisumio-bijutsukan.jp/>

<Map>

## Share Handling Procedures

### Shareholders holding accounts with securities companies

[Procedures and contents of inquiries]

- Change in registered address, name, etc.
- Change in method to receive dividends or remittance account
- Requests for purchase or sale of shares less than one unit and similar matters

=> The securities company where the account is opened

- Shipment / return of mail items
- Dividends after the payment period has passed
- Problems including non-receipt of documents and loss of dividend warrants and similar matters

=> Mitsubishi UFJ Trust and Banking Corporation

### Shareholders using special accounts

[All procedures and inquiries]

- Change in registered address, name, etc.
- Change in method to receive dividends or remittance account
- Requests for purchase or sale of shares less than one unit
- Shipment / return of mail items
- Dividends after the payment period has passed
- Other general inquiries on business concerning shares and similar matters

=> Inquiries

Mitsubishi UFJ Trust and Banking Corporation

Corporate Agency Division

10-11, Higashisuna 7-chome, Koto-ku, Tokyo 137-8081, Japan

0120-232-711 (toll-free number available only in Japan; 9 a.m. to 5 p.m. on weekdays)

### Requests for procedure forms

- Requests by interactive voice response telephone service

0120-244-479 (toll-free number available only in Japan; 24 hours)



## How to receive dividends

Shareholders can receive dividends safely and securely by opting to receive them by bank remittance.

Cash	Shareholder	Dividend warrants	JT
		←==	
		Dividend warrants	Japan Post Bank Post Office
		==>	
Bank remittance	Designated financial institution account	Dividends	JT
		←==	
	◇ In the case of receiving dividends by designating a deposit account at a bank, etc. for each issue held		
	Designated financial institution account X	Dividends	JT
		←==	
	Designated financial institution account Y	Dividends	Company A
		←==	
	◇ In the case of receiving dividends for all issues held in a lump-sum at a deposit account held at a bank, etc.		
	Designated financial institution account X	Dividends	JT
		←==	
Designated financial institution account X	Dividends	Company A	
	←==		
◇ In the case of receiving dividends in a trading account held at a securities company (if a balance exists at several securities companies, dividends are allocated according to balance)			
Securities company X / JT shares / ● shares	Dividends from ● shares	JT	
	←==		
Securities company Y / JT shares / ○ shares	Dividends from ○ shares		
	←==		
* Not available for use by shareholders who use special accounts			

## Members of the Board, Auditors, and Executive Officers

### Members of the Board

Chairman of the Board	Hiroshi Kimura
Representative Director, President	Mitsuomi Koizumi
Representative Director, Executive Deputy President	Yasushi Shingai
Representative Director, Executive Deputy President	Noriaki Okubo
Representative Director, Executive Deputy President	Akira Saeki
Executive Deputy President	Hideki Miyazaki
Member of the Board	Mutsuo Iwai
Member of the Board	Motoyuki Oka
Member of the Board	Main Kohda

### Auditors

Standing Auditor	Hisao Tateishi
Standing Auditor	Futoshi Nakamura
Auditor	Koichi Ueda
Auditor	Yoshinori Imai

### Executive Officers (*shikkoyakuin*)

President, Chief Executive Officer	Mitsuomi Koizumi
Executive Deputy President, Assistant to CEO in Compliance, Strategy, HR, General Administration, Legal, Operational Review and Business Assurance	Yasushi Shingai
Executive Deputy President, Assistant to CEO in Pharmaceutical Business and Food Business	Noriaki Okubo
Executive Deputy President, President, Tobacco Business	Akira Saeki
Executive Deputy President, Assistant to CEO in CSR, Finance and Communications	Hideki Miyazaki
Senior Executive Vice President, Chief Marketing & Sales Officer, Tobacco Business	Kenji Iijima
Senior Executive Vice President, Assistant to CEO in Compliance and General Administration	Ryoji Chijiwa
Executive Vice President, Head of Domestic Leaf Tobacco General Division, Tobacco Business	Shinichi Murakami
Senior Vice President, Chief Corporate, Scientific & Regulatory Affairs Officer, Tobacco Business	Kazuhiro Yamashita
Senior Vice President, Head of Manufacturing General Division, Tobacco Business	Masahiko Sato
Senior Vice President, Head of China Division, Tobacco Business	Atsuhiro Kawamata

Senior Vice President, Head of Central Pharmaceutical Research Institute, Pharmaceutical Business	Junichi Haruta
Senior Vice President, Head of Soft Drink Business Division	Ryoko Nagata
Senior Vice President, Chief Strategy Officer	Masamichi Terabatake
Senior Vice President, Chief Communications Officer	Yasuyuki Tanaka
Senior Vice President, Chief R&D Officer, Tobacco Business	Yasuyuki Yoneda
Senior Vice President, Head of Tobacco Business Planning Division, Tobacco Business	Junichi Fukuchi
Senior Vice President, President, Pharmaceutical Business	Muneaki Fujimoto
Senior Vice President, Chief Human Resources Officer	Chito Sasaki
Senior Vice President, Chief Financial Officer	Naohiro Minami
Senior Vice President, Chief General Affairs Officer	Haruhiko Yamada
Senior Vice President, Chief Legal Officer and Vice President, Legal Division	Kiyohide Hirowatari

#### Trends in Share Price

Share prices of JT, from IPO on October 27, 1994 to October 2012 (closing prices on the TSE, monthly basis)

<Chart of JT's share price>

#### First sale

Sale by bidding

Contract price ¥1,362,000 to ¥2,110,000 (fixed date of the contract price August 29, 1994)

Sale without bidding

Sale price ¥1,438,000 (fixed date of the sale price August 31, 1994)

#### Second sale

Sale price ¥815,000 (fixed date of the sale price June 17, 1996)

#### Third sale

Sale price ¥843,000 (fixed date of the sale price June 7, 2004)

\* JT implemented stock split of 200-for-1 on July 1, 2012. The share prices before that date are retroactively adjusted although the share prices listed above as the sale price for first sale through third sale have not been revised to reflect such split.

<Photo>

JT Thunders / JT Marvelous

The 2012/13 V Premier League kick off

<Photo>

TableMark Co., Ltd. bakery business, “Saint-Germain”

Memo for Shareholders

Closing date: March 31 of each year

Annual General Meeting of Shareholders: June of each year

Record date for year-end dividend: March 31 of each year

Record date for interim dividend: September 30 of each year

Share trade unit: 100 shares

Method of public notice:

Electronic public notice

Public notices will be posted on JT’s website: <http://www.jti.co.jp/>

\* If JT is unable to make electronic public notice due to an accident or any other compelling reason, it will make an alternative public notice in “The Nikkei” newspaper.

Shareholder registry administrator/special-account managing institution:

Mitsubishi UFJ Trust and Banking Corporation

■ Office for handling business

4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan

Mitsubishi UFJ Trust and Banking Corporation

Corporate Agency Division

■ Inquiry/mailing address

10-11, Higashisuna 7-chome, Koto-ku, Tokyo 137-8081, Japan

Mitsubishi UFJ Trust and Banking Corporation

Corporate Agency Division

0120-232-711 (toll-free number available only in Japan; 9 a.m. to 5 p.m. on weekdays)

■ Request for procedure forms related to special account

The special-account managing institution accepts requests for administrative procedure for shareholders using special accounts (including notification of change of address, forms for designation or change of

direct deposit of dividends, and forms for requesting procedures for inheritance of shares) at 0120-244-479 (toll-free number available only in Japan) 24 hours a day.

Concerning share handling procedures:

Shareholders are asked to contact the securities company where they have accounts.

This Report was printed using vegetable oil inks along with FSC approved paper to protect our forests.

Japan Tobacco Inc.

JT Building

2-1, Toranomom 2-chome, Minato-ku, Tokyo 105-8422, Japan

Tel.: +81-3-3582-3111

URL: <http://www.jti.co.jp/>